

ECONOMIC INEQUALITY IN ARUBA?



"There should exist among the citizens neither extreme poverty nor again excessive wealth", wrote Plato, "for both are productive of great evil." "The fact is that income inequality is real," President Bush told an audience recently in New York. "It's been rising for more than 25 years." Thirty years ago, the average corporate CEO in the USA made 20 times what the average worker did. Today, it's nearly 400 times. In other words, it takes the average worker more than a year to make the money his or her boss makes in one day. This triggers the question whether (extreme) income inequality exists in Aruba and if the situation is better or worse compared to the past.

Does inequality matter?

Does inequality matter, and if so, why? Inequality in income is an inevitable product of any functioning market economy, though there are questions about the justifiable extent of income inequality. From a human development perspective there are a range of mutually reinforcing intrinsic and instrumental reasons why inequality matters. Adam Smith powerfully expressed the basic concept: "No society can be flourishing and happy", he wrote,

"of which the far greater part of members are poor and miserable."

Most societies, like our's, see reducing poverty and removing unjust inequalities as important goals for public policy. Extreme disparities undermine the pursuit of these goals. Extreme inequalities in income limit the rate at which growth can be converted into lower levels of poverty. Gary Becker, a Nobel Prize-winning economist, says income inequality is not always a bad thing. In most countries the rich are getting richer and the poor are falling further behind. But, he says, that's mostly because the better off have more education. And he says that gap is creating the right incentives. Poor people are learning that to get ahead, they need to get more skills. And the more skilled the workforce is, the better the overall society does.

Robert Solow, another Nobel Prize winner, doesn't agree with Gary Becker. According to Solow, Becker tends to ignore bad inequality, the kind that comes from inherited wealth or racism. Inherited disadvantage in opportunity is wrong for intrinsic reasons: it violates basic precepts of social justice.

On this question of inequality, Becker and Solow disagree. But they

do agree on one basic point: The best thing for the nation and everyone in it is if young people listen to that old public service announcement: stay in school.

Economic performance and human development in Aruba

In order to measure (the intensity) of inequality, human development and economic growth in Aruba, a broad set of indicators are available. Essential to monitor changes in our small community are at least the following indicators: Real Economic Growth Rate, Tourism Earning as percentage of GDP, Economic Diversification, the Human Development Index, Rate of Unemployment and the Human Poverty Index. The Real Economic Growth Rate is an indicator on the extent to which the economy is able to carry its population. This concept is broader than measuring Aruba's development by GDP growth and enables us to monitor whether developments are sustainable. The Economist recently also paid attention to this phenomenon: "It's high time that economists looked at more than just GDP: Economists spend much time discussing how to boost GDP growth. Yet a nation's well-being depends on

many factors ignored by GDP, such as leisure time, income inequality and the quality of the environment."

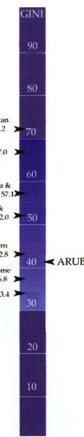


Although the annual nominal economic growth was more than five percent during the period '95-'07, the economic development was only possible thanks to a huge influx of foreign workers, meaning that Aruba's GDP was boosted by volume and not by a raise of labor productivity. The nominal GDP almost doubled during this period, however, the real GDP per capita is currently at exactly the same level as in 1995: US\$ 16.5 thousand. The Real Economic Growth Rate Indicator, relates the overall performance of the economy in terms of changes in total production of goods and services to the population growth rate. This indicator is measured by taking the result of the increment in GDP at constant market prices (%) minus the increment in the size of the population (%). For sustainable development the Real Economic Growth Rate should be positive or at least not less than zero. Except for 1995, 1998 and 2001, the indicator is positive. This means that, overall, our economy is able to provide adequate levels of income for its people. This does not take into account the skewed distribution of income. This can be measured by constructing a Lorenz-curve and calculating the Gini-coefficient.

Inequality in income

The Gini-index measures the extent to which the distribution of income among individuals or households within a country deviates from a perfectly equal distribution. A Lorenz cur-

ve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. A value of 0 represents absolute equality, a value of 100 absolute inequality.



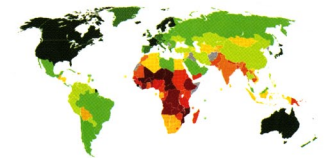
Differences in the Gini-coefficient relate to differences in the share of national wealth captured by the poorest people. The poorest 20% of Aruba's households capture only 4% of the national income, and the richest 10% of the households capture more than 28% of the national income. When comparing the results over time, one can see that the income distribution in 2006, represented by the Lorenz-curve, is almost the same as in 2000. The Gini-coefficient indicates a slight increase between the two periods and equals 0.42 in the year 2006. This is a clear indication that the income distribution in Aruba is less skewed than in our neighboring islands. The level of inequality is almost the same as in Central & Eastern Europe.

The Human Development Index

The human development index (HDI) is a composite index that measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living, as measured by GDP per capita. While the concept of human development is much broader than any single composite index can measure,

re, the HDI offers a powerful alternative to GDP per capita as a summary measure of human well-being.

A HDI below 0.5 is considered to represent "low development". All 22 countries in that category are located in Africa. A HDI of 0.8 or more is considered to represent "high development". This includes all developed countries, such as those in North America, Western Europe, Oceania, and Eastern Asia, as well as some developing countries in the Caribbean. Aruba's HDI is as high as 0.88, positioning Aruba together with the top 30 countries in the world.



The goal (of the CBS) behind the building of social-economic indicators is the communication of information about human activities and its effects on the environment. The combination of different indicators provides a picture of what is happening to the hypothetical average person in Aruba. Although one may conclude that the "average" person on Aruba is in a favorable position compared to our closest neighbors, it is important to realize that always special attention needs to be paid to vulnerable groups in our community.

*Drs. Martijn J. Balkestein is born in the Netherlands and came together with his Aruban born wife to Aruba in 1992. He holds an academic degree in the science of public administration and a bachelor's degree in environmental management. He started his career as a researcher at the Central Bureau of Statistics in 1993. After one year he became the head of the Research Department and was responsible for guiding extensive fieldwork research. He was the official appointed census officer in 2000, and is currently acting director of the CBS.